24 April 2018 ASX: ILU

ILUKA 2018 ANNUAL GENERAL MEETING

Iluka Resources Limited (Iluka) today held its 63rd Annual General Meeting of Shareholders in Perth, Western Australia.

Shareholders voted on four resolutions: the election of Director, Robert Cole; the re-election of Director James (Hutch) Ranck; adoption of the remuneration report; and the grant of securities to the Managing Director.

A transcript of the addresses delivered by the Chairman and Managing Director is attached.

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Attachments:
Chairman's and Managing Director's 2018 Annual General Meeting Addresses

ILUKA RESOURCES LIMITED

2018 ANNUAL GENERAL MEETING

24 APRIL 2018, PERTH, WESTERN AUSTRALIA

CHAIRMAN'S AND MANAGING DIRECTOR'S ADDRESSES

Chairman's Address

Consistent with past practice, I will commence the formal business of this meeting with my report on the previous year. Tom will follow with his business update and views on the company's direction.

Before going into these matters, there is one incident that I think is important for all of us connected with Iluka to acknowledge and reflect on. In March, there was a fatality associated with the Cataby project, with the tragic death of Glenn Morton – a member of the BCE Surveying team, subcontracted by Watpac as part of the bulk earth works. Glenn suffered a severe reaction to what is believed to have been a bee sting and, despite the efforts of the people at site and medical professionals, passed away 14 days later.

There are simply no words to lessen the sadness we all feel at this terrible tragedy; or to adequately convey our sympathies to Glenn's family and friends. The safety and wellbeing of Iluka's people, including our contractors and service providers, lies at the heart of this business; and we cooperating fully with an investigation by the Western Australian Department of Mines, Industry Regulation and Safety.

Iluka has engaged with both Watpac and BCE on the support being provided to Glenn's family. While custom dictates that various business matters will be discussed during today's AGM, I would like to take this opportunity, on behalf of the Board, Managing Director and all at Iluka, to reiterate our heartfelt condolences to Glenn's family and friends. You are in our thoughts.

Shareholders will be aware that Iluka released its Annual Report on 27 February and its Sustainability Report on 20 April. These documents cover the company's 2017 activities in detail and are available here today.

2017 was characterised by positive transition at Iluka and, reflecting on the previous 12 months, I am mindful that I am addressing you under very different circumstances than at this time last year. The company, industry and mineral sands markets have all undergone much change.

Despite reporting an unsatisfactory financial loss of $171.6 million, which was impacted by impairments and provision increases, Iluka's underlying performance in 2017 was strong. Mineral sands revenue increased by 40 per cent to just over $1 billion. Underlying EBITDA increased 140 per cent to $361 million. And the resulting free cash flow of $322 million enabled the company to reduce net debt by 64 per cent, as well as declare total dividends for 2017 of 31 cents per share, fully franked, consistent with Iluka's dividend framework.

Central to these results was a substantial improvement in mineral sands market conditions, which ended 2017 in their best shape in five years. Sales volumes of Iluka's core, high value products of zircon, rutile and synthetic rutile rose by 27 per cent to 889 thousand tonnes. The average premium and standard zircon price increased 40 per cent from the start of the year to US$1,128 per tonne. Likewise, rutile prices increased 13 per cent to $US825 per tonne.

Key operational developments for the year included the integration of the Sierra Rutile operation in Sierra Leone; the recommencement of mining and concentrating activities at Jacinth-Ambrosia in South Australia; and approval for the Cataby project in Western Australia. These developments position Iluka to take advantage of the recovery in mineral sands markets that is now evident.

Tom will provide an overview of the offtake agreements that underpin the Cataby development in his address. I would note that, in line with these agreements, 2017 saw an evolution of Iluka's foreign currency risk management activities, whereby the company entered hedging transactions for the first time in several years to provide protection against the possibility of a rising Australian dollar.

The objective of this hedging is quite simple: where we have hedged one side of the transaction – as we effectively have done via the US dollar price in the long-term titanium dioxide sales contracts associated with Cataby – then prudent risk management practice dictates that the Australian dollar-US dollar exchange rate risk also needs to be managed.

I should emphasise that this is a risk management activity to provide a degree of certainty around future Australian dollar revenues and margins. We are not trying to pick the direction of the market; nor are we speculating. Iluka has tight controls and checks and balances around its hedging activities to ensure its exposures are managed appropriately.

More generally, the Board recognises that the identification and management of risk is fundamental to Iluka's ability to deliver sustainable value. The company's Risk Management Policy, Risk Management Framework and Risk Appetite Statement are the key pillars of an approach to risk that the Board considers is appropriate for a business of Iluka's size and complexity.

The main impairments and provision increases that contributed to Iluka's reported loss for 2017 were:

- a $151 million impairment associated with the decision to place the Hamilton mineral separation plant into care and maintenance, announced in June 2017, following a detailed review of the company's production portfolio post the acquisition of Sierra Rutile;

- a $30 million impairment associated with the write down of Iluka's investment in UK-based technology company Metalysis, announced in October 2017, following the company's decision not to participate in Metalysis' most recent round of funding; and

- a $127 million increase in the rehabilitation provision, announced in December 2017, predominantly driven by the potential for additional obligations relating to rehabilitation in the United States.

While I do not intend to repeat the statements released by the company on each of these matters during the year, I will take this opportunity to reiterate the comments I made in my Annual Report letter regarding the increase in the rehabilitation provision, which was a particularly disappointing outcome. Sustainable development, including land rehabilitation, is an essential part of Iluka's operating model and approach to conducting business. I can assure shareholders that this matter has received close and considered examination by the Board and Executive.

In terms of environmental management more broadly, the company's incident reporting framework was introduced at Sierra Rutile in 2017, with 20 incidents reported for the year. Excluding Sierra Rutile, Iluka recorded a reduction in environmental incidents from 11 in 2016 to 7 in 2017.

Iluka's safety incident reporting framework was also introduced at Sierra Rutile as part of integration activities, with that operation ending the year with a total recordable injury frequency rate of 2.2; and lost time injury frequency rate of 1.0. Excluding Sierra Rutile, Iluka recorded slight increases in each of these ratios. As 2017 was a baseline year for data collection at Sierra Rutile, combined group ratios of 2.8 and 1.0 respectively will be used for 2018 comparisons. Not least for the reasons I spoke of earlier, safety is and will remain an area of continuing emphasis across Iluka's business.

As Chair of the People and Performance Committee, I know Hutch is looking forward to addressing the remuneration report later this morning, particularly with respect to the introduction of the new and innovative Executive Incentive Plan. I would also like to note that the Board recently approved a modest pay review for Iluka's employees. This is the first such review undertaken at Iluka in four years. Although conscious that the company's reported financial result for 2017 was unsatisfactory, underlying performance was strong and Iluka was able to deliver a solid dividend to shareholders and reduce net debt significantly. In this context, a modest pay review was considered appropriate and an acknowledgement of the value of Iluka's most important asset – its people.

Notwithstanding Iluka's transition on several fronts in 2017, I am conscious that there are many shareholders – some of you here in attendance today – that have stuck with the company during what was an extended period of historically subdued mineral sands market conditions. I would like to particularly acknowledge this group for its patience; and indeed extend my thanks to all shareholders for your ongoing support.

Iluka is now well positioned to deliver sustainable value over the medium term and the Board is fully supportive of management's strategy and approach in this regard. The company has a busy and extensive programme of work ahead of it. Shareholders are no doubt eager to hear how this work is progressing, so, with that in mind, I will conclude my remarks and hand over to Tom for his Managing Director's address. Thank you.

Managing Director's Address

Thank you, Greg.

The past year did indeed see many changes as the Chairman has pointed out. I am pleased with the way the business responded to this transition and I think we can look to the future with some confidence. That said, delivery is Iluka's core focus for 2018. This means:

- delivery on sustainable development, particularly in the areas of safety and environmental performance;
- delivery on expansion and improvement projects;
- delivery on operational excellence; and
- delivery on our marketing strategy.

Iluka is focussed on delivering sustainable value from all of its activities; and I will take this opportunity to make some observations on the zircon market in particular. The company is of the view that there is a structural deficit in zircon supply when compared with genuine demand; and that this deficit will likely widen as demand grows and grades drop at various mines across the industry, resulting in less production. Not surprisingly, this is having an influence on price. To illustrate, Iluka's Zircon Reference Price has increased 44 per cent from the start of 2017 to date; and net realised prices have increased more than 60 per cent over the same period.

Shareholders are rightly interested in Iluka's approach to the zircon market, noting the price volatility that has characterised this commodity in the past.

Many will be aware that in 2015 the company established a Zircon Reference Price, which provides some transparency and reduces speculation about Iluka's positioning in the marketplace. We have also invested in gaining a better understanding of the trigger points for zircon substitution and thrifting. Armed with this knowledge, the company is better able to make informed decisions on the consequences of its production and pricing actions. In addition, in recent adjustments to the Reference Price, Iluka has stated that these would be in effect for six months. This greater price certainty should assist our customers in passing on price changes. It also affords us an opportunity to better analyse the impact of our pricing adjustments on our customers and our customers' customers.

I would add that while Iluka is the world's largest supplier of zircon, the company accounts for around a third of the global market. We believe an important challenge for the industry is to reflect on what happened in 2011 and 2012 – when prices rose rapidly and to such an extent that approximately 200 thousand tonnes of demand was permanently destroyed; and then dropped to levels where few in the industry were making even a cash margin, let alone a profit. Iluka was cognisant of this context in its recent decision to lift the Zircon Reference Price from US$1,230 per tonne to US$1,410 per tonne, effective 1 April, for a period of six months. We believe the Reference Price is below the threshold for end-consumers to consider investing in substitutes, and is sustainable for the industry.

As noted at the Investor Day Iluka held in November, the company's view is that, in the short term, the supply response for zircon will largely be from Kalimantan, in Indonesia, from where exports are currently about 3.5 thousand tonnes per month. We expect these exports to continue to increase in coming months. In addition, as I will speak to shortly, Iluka could also take steps to address the supply deficit by accelerating the mine move to Ambrosia.

The Chairman alluded to a busy work programme ahead and this is most certainly the case, particularly with respect to capital investment relative to recent years. To sustain and grow the business over the near term, Iluka's resource development activities are focussed on the delivery of expansion projects at both new and existing mines. This includes the Cataby Project in Western Australia; the expansion of the Jacinth Ambrosia operation in South Australia; and expansions and ongoing continuous improvement in Sierra Leone.

In relation to Cataby, as Greg mentioned, this development is underpinned by offtake agreements for 85 per cent of synthetic rutile production associated with the project for a minimum of four years. In addition, at Iluka's option, offtake of 40 per cent of production is secured for a further four years. These customer agreements deliver an unprecedented level of revenue certainty to Iluka's synthetic rutile business. They also serve to underpin value from the project and illustrate the company's disciplined approach to capital investment. All critical path activities for Cataby are tracking in line with Iluka's schedule to see the project delivered in the first quarter of 2019.

Mining and concentrating activities recommenced at Jacinth-Ambrosia in December and, to offset declining ore grades in future years, Iluka is planning to expand the operation, increasing plant throughput by around 30 per cent. The project scope includes an upgrade of the wet concentrator plant; the introduction of a second mining unit to handle additional ore; and a capacity increase at the site's accommodation camp. This plant expansion is expected to cost approximately $40 million, with completion scheduled for the second quarter of 2019.

In addition, Iluka is considering whether to move one of Jacinth-Ambrosia's mining units to the Ambrosia deposit as part of the mine optimisation work that we have undertaken. This should result in average zircon production about 20 per cent higher than the levels we guided at our Investor day in November – some of you may recall that potential outcome being highlighted as part of the November presentation. The mine move to Ambrosia will also have capital outflows associated with it.

A definitive feasibility study for the expansion and improvements at Jacinth-Ambrosia is expected to be completed by mid-2018, with project execution expected to commence in the second half of 2018, subject to Board approval and market conditions. Capital estimates will be confirmed as part of the definitive feasibility study process.

In Sierra Leone, consistent with our acquisition case for Sierra Rutile, we are doubling capacity at both of our dry mines in Lanti and Gangama, with commissioning planned for 2019. The Sembehun project, which contains the majority of the remaining ore reserves at Sierra Rutile, is currently the subject of a detailed definitive feasibility study. Commissioning of this project is expected in 2021.

While discussing developments in Sierra Leone, I should note that the country recently concluded the process of electing a new President. On 4 April, the National Electoral Commission announced that Julius Maada Bio of the Sierra Leone People's Party (SLPP) had prevailed in what was a very tight contest. Consensus among international observers is that the election process – which included an initial poll and a subsequent run-off – was conducted credibly and, for the most part, peacefully.

The SLPP previously governed Sierra Leone from 2002-2007 and legislated the *Sierra Rutile Act*, which sets out the fiscal framework for our operations. President Maada Bio's election marks the second peaceful democratic transition of power between Sierra Leone's two main political parties since the end of the country's civil conflict in 2002.

Sierra Rutile has of course been operating since the 1960s and is a significant source of employment in Sierra Leone. Iluka looks forward to working with the new government to maintain a business environment that is conducive to foreign direct investment, which is seen as crucial to the development of the country's economy.

Beyond Iluka's immediate projects, the company is also progressing a portfolio of longer term organic growth options, with a time horizon of approximately three to five years. These include both conventional resource development initiatives, such as the Puttalam project in Sri Lanka; as well as those based on innovation and technical development, such as the Balranald project in New South Wales and the Fine Minerals project in Victoria.

Iluka has a lot on its plate and I can assure you that no one in the company is under any illusions about the considerable work ahead. I started my address today by noting that delivery was our number one focus for 2018; and to some extent it goes without saying that all good companies are in the business of delivering, one way or another.

I think Iluka's emphasis on delivery reflects that mineral sands markets have emerged from five years of historically subdued conditions; and that, partly as a result of this period, Iluka has not undertaken any major capital works since 2012. In undertaking the substantial work ahead, we are determined to make the most of the changed market and industry conditions in a way that provides sustainable value for all of our stakeholders. It is only by delivering on this task that Iluka will maintain the ongoing trust of its most important stakeholder – our shareholders – to further grow the business over the medium to longer term. This is a challenge we relish; and I am grateful for the continued support of our Chairman, Directors, employees and shareholders. Thank you.